FINANCIAL MANAGEMENT AND ACCOUNTABILITY ARE CRITICAL

Financial management and accountability are the cornerstone for FDIC maintaining the trust of the Congress, the American public, and the banking industry that the deposit insurance funds are soundly financed and well-managed. Decisions made about the insurance premiums charged to member institutions and about the costs of FDIC operations depend upon timely, accurate, and reliable financial information. The ultimate resolution of FDIC-controlled receiverships likewise depends upon sound financial information and accurate accounting for each receivership. FDIC processes an estimated 6.5 million transactions annually valued at $3.8 trillion.

The annual financial statement audit, conducted by the U.S. General Accounting Office with increasing OIG participation, is one means to ensure that FDIC funds have been appropriately managed and accounted for. (See discussion this section.) Other OIG audit and oversight efforts focus on aspects of the Corporation’s financial management practices, such as case management, accounts payable, receipts processing, and the adequacy of corporate internal controls.

DIVISION OF FINANCE FACES GREAT CHALLENGES

During this reporting period, the OIG completed an audit of the cash management operations administered by the Division of Finance (DOF) in Washington, D.C. During 1995, DOF processed 31,300 receipt transactions totaling $12.2 billion and 12,300 disbursement transactions totaling $6.2 billion. Based on our audit, we found that DOF implemented appropriate methods, procedures, and controls to ensure that transactions were processed properly. In addition, DOF properly recorded these transactions and provided accurate information for the timely investment of corporate funds. Although the audit did not disclose any defalcations or misappropriation of funds, the OIG identified ways in which DOF could improve controls. We suggested that DOF develop procedures for cash management operations to improve controls and ensure consistency of operations. DOF agreed with our recommendations and has enhanced its controls over the corporate cash management operations.

Accounting for a specific receivership begins when the assets and liabilities of a failed institution not taken over by the purchaser become the assets and liabilities of the receivership. To determine if this process works as intended, the OIG completed an audit of inventory closing procedures performed by the Northeast Service Center. We determined that the opening entries in the receiverships' books were properly supported by the failed banks' records and subsequent adjustments as of their dates of closing, the inventories of assets were adequately supported, and appropriate closing procedures were performed. We also concluded that the FDIC closing teams generally complied with FDIC policies and procedures, and all financial transactions were properly recorded and supported.

FDIC also assumed responsibility to account for all receiverships from RTC when RTC closed its doors on December 31, 1995. Because RTC-related expenses are charged to a separate fund, the OIG completed an audit of accounting for miscellaneous RTC-related expenses at the FDIC's Financial Service Center (FSC) in Kansas City, Missouri. During the period June 1993 through June 1995, the FSC recorded 17,257 transactions totaling $56 million it its five miscellaneous expense accounts. We found that, generally, the FSC's miscellaneous expense account balances were valid, and properly supported. However, of the 30 sample transactions reviewed, FDIC management was not able to initially provide sufficient supporting documentation for 1 transaction totaling $202,079. The FSC charged $202,079 to a miscellaneous expense account as a net adjustment for $2.5 million in unreconciled variances in three subsidiary cash accounts. Without sufficient, competent, and relevant evidence to explain the cash variances and the nature of the expense, FDIC is not assured that the transaction was a legitimate expense. As a result of this audit, the OIG recommended that DOF continue the search for missing records that would explain the $202,079 in expenses and $2.5 million variance in subsidiary cash accounts. DOF personnel reviewed additional documentation and the original case writing off the variance and determined that RTC's Kansas City FSC conducted sufficient research to justify its actions. DOF further suggested that the $2.5 million cash variance was not an issue of whether cash was missing but rather an issue of the accuracy and condition of the accounting records at the time of pro forma. Although DOF's response did not explain the nature of the $2.5 million cash variance, the OIG accepted management's position that it has conducted sufficient research to justify writing off the cash variance.

OIG Plays Greater Role in the Audit of FDIC's Financial Statements

The Chief Financial Officers Act requires that government corporations have their financial statements audited annually and that such corporations submit an annual management report to the Congress. The U.S. General Accounting Office (GAO) has in the past been primarily responsible for the audit of FDIC's financial statements, and the OIG has provided support by conducting separate audits that GAO could rely upon to render opinions on the statements. These roles, however, are shifting.

The OIG has legislative authority under the Chief Financial Officers Act to perform the financial statement audit, but GAO continues to have responsibility for the audit under the Federal Deposit Insurance (FDI) Act. The FDI Act provisions will require legislative change in order for the OIG to assume full responsibility and both GAO and the OIG are working to that end.

The OIG's involvement with the annual audit began in 1995. For the calendar 1996 audit, the OIG has dedicated senior level audit specialists to prepare to replace GAO managers in the future. While GAO will be removing some of its staff from the assignment next year, the OIG will be assigning more of its staff to the effort. The project is progressing well and the OIG and GAO management agree that there are mutual benefits of the ultimate OIG takeover of the annual financial statement audit. GAO welcomes the reassignment of some of its staff to other GAO activities at a time when GAO is dealing with budgetary cutbacks and an overall reduction in staff. The OIG expects the Corporation to benefit through OIG efforts to streamline the audit process and provide cost savings to the Corporation.